

## Strategic Framework

# Delivering sustainable growth in long-term free cash flow

AVEVA creates industrial software that inspires people to shape the future. We believe industry advancement should enhance the human experience. Our solutions deliver business value by transforming the engineering, operations and performance of industries. We work with our unique ecosystem of partners from distributors to system integrators and strategic alliance partners, to deliver sustainable growth for customers in more than 100 countries worldwide. The power of our network, combined with our software's unique capabilities, drives long-term value for our business and our investors.

### Our strategic priorities

Creating best-in-class industrial software that inspires people to shape a more sustainable future

Growing our long-term free cash flow

Investing in next-generation software to sustain long-term growth

### Progress during the year

Our transformational progress continued this year with over 140 new software solutions launched across our portfolio. These new solutions increase process, production and workforce efficiency, reduce operating costs, and empower customers to achieve their sustainability targets. Together with our customers and partners, we showcased these solutions and the value delivered at many of our AVEVA World Summit and AVEVA World Conference global events.

We demonstrated advanced integrated engineering, simulation, and plant design software, created to optimise the entire life cycle of an asset. We improved production planning, scheduling and operations to enable a more efficient and cost-effective value chain. Our capabilities in asset maintenance, performance, and reliability were accelerated through new predictive and prescriptive analytics. We also improved visibility across customers' day-to-day operations with enhanced real-time visualisation, connectivity and control.

We continued to focus on achieving our medium-term targets to drive AVEVA's longer-term cash flows, by:

- growing constant currency revenue at least in line with the industrial software market;
- increasing recurring revenue as a proportion of total revenue; and
- growing our adjusted EBIT margin towards 30%.

Our revenue growth target is based on a view that we have a responsibility to ensure that AVEVA performs at least as well as its peers.

Our recurring revenue reached 62% of total revenue, as a result of accelerating our progress through new subscription programmes. We intend to continue this momentum by growing software revenue faster than services revenue, and prioritising the growth of subscription revenue in our software mix throughout the year.



You can read more about our progress towards our medium-term targets in our Chief Executive's Review on pages 8-13

Significant progress was made during the year as a result of our technology investments of over £120m, improving our portfolio and empowering our customers and partners to meet the changing needs of the market.





For more on this, please see the Chief Executive's Review on pages 8-13

In addition to new releases and ongoing product integration programs, we continue to track technological megatrends and selectively apply them across the portfolio, enabling the digitalisation of the industrial world. Key areas for AVEVA include Cloud and the IIoT, visualisation, and applied AI.



For definitions of and our focus on these Technology Megatrends on pages 16-17

Link to KPIs	Principal risks	Link to remuneration	Objectives for the year ahead
<p>Creating best-in-class software generates business value for our customers. This enables AVEVA to win more market share and deliver revenue growth.</p> <p>We include total revenue growth as a KPI.</p>	<p>Continued development of best-in-class software and solutions is tied to many of our principal risks, from cybersecurity to acquiring and retaining strong talent.</p> <p> <a href="#">Principal Risks</a> More on pages 40-47</p>	<p>Revenue growth drives profitability. Both of these measures represent key elements of the short-term incentive plans for management.</p> <p> <a href="#">Remuneration Report</a> More on pages 80-108</p>	<p>We will continue to increase the integration between our products and expand our capabilities in adjacent areas.</p> <p>This will ensure we can help our customers navigate their digitalisation journeys in a safe and sustainable way.</p>
<p>Additional financial KPIs include recurring revenue as a proportion of total revenue, adjusted EBIT margin, and cash conversion (a measure of how much adjusted EBIT is converted into operating cash flow).</p>	<p>The move to a subscription-based licence model may fail to create the improved recurring revenue and cash flow generation expected or may cause a short-term detrimental effect on revenue and earnings.</p> <p>To grow long-term free cash flow, AVEVA has a more tolerant appetite towards risks associated with subscription licensing. To mitigate, we will in some cases continue to offer perpetual licences.</p>	<p>Revenue and margin growth drive growth in adjusted EBIT and adjusted Earnings Per Share (EPS).</p> <p>Increasing recurring revenue drives Total Shareholder Return (TSR), despite the short-term impact that it can have on total revenue and earnings. This is because it increases the net present value of the business, by increasing longer term cash flows.</p> <p>Adjusted EBIT is a key metric for short-term incentive plans and both EPS growth and TSR form a key part of long-term incentive plan (LTIP) management remuneration.</p>	<p>We will continue to focus on winning new business, as well as effective cost control.</p> <p>This will increase both revenue and margin, helping achieve our medium-term targets.</p>
<p>Our software is increasingly delivered via the Cloud. This means customers can deploy it more rapidly and access data from the field, the office or at home.</p> <p>We track the number of new Cloud customers as a KPI.</p>	<p>We have recognised the risks associated with investing in our Cloud product initiatives and our Digital Transformation Agenda.</p> <p>We have put in place dedicated teams and are working closely with customers and external parties to understand the challenges and requirements.</p>	<p>Reinvesting in technologies that will sustain long-term growth will, over time, also drive EPS growth and in relation to that, TSR growth.</p> <p>Both EPS growth and TSR form a key part of long-term incentive plan (LTIP) management remuneration.</p>	<p>We will continue our investment in R&amp;D.</p> <p>This will ensure we remain at the forefront of cutting-edge technologies such as AI, and further develop our Cloud capabilities.</p>

## Key Performance Indicators

# How we measure our progress

We track and report both financial and non-financial KPIs to measure progress against our strategy. These KPIs help to highlight AVEVA's short-term performance, progress towards longer-term goals and progress against

Corporate and Social Responsibility (CSR) objectives, which we see as being important in the context of the long-term sustainability of AVEVA's business.

Strategic Framework: pages 22-23  
 CSR: pages 32-38

## Financial

AVEVA has three key medium-term targets that are designed to drive longer-term cash flows. These are to grow constant currency revenue at least in line with the industrial software market; to increase recurring revenue as a percentage of total revenue; and to grow our adjusted EBIT margin to 30%. These are discussed in more detail on page 22.

In addition to progress against these targets, we track growth of adjusted diluted EPS, which we see as being the most accurate measure of total earnings growth for shareholders, and conversion of adjusted diluted EPS into cash, to track AVEVA's sustainable cash generation.

### Total revenue growth<sup>1</sup>

**8.8%**  
(FY19: 57.6%)



AVEVA's revenue growth performance was positive in the context of our medium-term targets during the year. This was due to strong sales execution, an ongoing trend towards digitalisation of industry and stable conditions in AVEVA's end markets on a sector basis.

### Adjusted EBIT margin

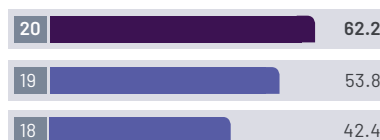
**26.0%**  
(FY19: 22.9%)



Adjusted EBIT margin increased 310 bps versus the prior year. This improvement was driven by revenue growth, combined with cost control, leading to operational leverage.

### Recurring revenue as a proportion of total revenue

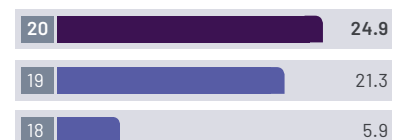
**62.2%**  
(FY19: 53.8%)



The proportion of total revenue considered as recurring increased 840 bps versus the prior year. This improvement was driven by growth in subscription revenues as AVEVA moves away from selling perpetual licences.

### Growth in adjusted diluted EPS

**24.9%**  
(FY19: 21.3%)



Adjusted diluted EPS grew over 20% to 108.15 pence. This growth was primarily driven by the increase in adjusted EBIT.

<sup>1</sup> Revenue in FY18 was during the year of the merger and subsequently did not represent a full year's revenue from both businesses combined.

## Non-financial

We use collaborative innovation to empower people and industries, enabling the planet to thrive. Our non-financial KPIs are designed to capture AVEVA's innovation and empowerment of our people.



### Cash conversion

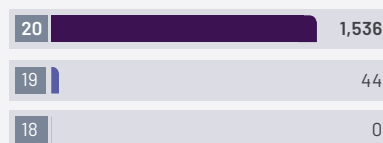
**74.4%**  
(FY19: 96.1%)



This is a measure of how much of adjusted EBIT is converted to operating cash flow before tax. We target conversion of 100%, but the result was impacted by exceptional items paid relating to restructuring and the integration of the heritage AVEVA and SES businesses, as well the impact of timing of revenue recognition on multi-year subscription contracts.

### AVEVA Action for Good charity days used

**1,536**  
(FY19: 44)



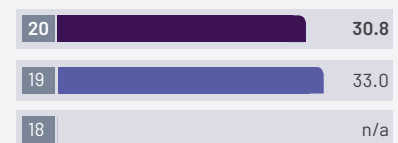
AVEVA Action for Good is a Group-wide initiative designed to harness the limitless possibilities of our people within our communities and involvement in social wellbeing activities. We have pledged the equivalent of 1% of our net profits each year through paid time off and charitable donations. Read more on pages 36–37.



AVEVA's Culture and Values  
Read more on page 32

### Women as percent of all new hires

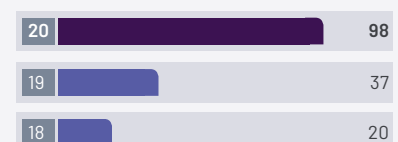
**31%**  
(FY19: 33%)



AVEVA is committed to supporting and encouraging women in all areas of the business, from new graduates in STEM (Science, Technology, Engineering & Maths) careers, to senior management roles. Women are 25% of the current workforce, and we have a goal to increase this every year. 2018 data is unavailable.

### New Cloud customers

**98**  
(FY19: 37)



Cloud represents a key area of innovation. During the year we won 98 new Cloud customers.